amo REPORT

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1988 PROVINCIAL BUDGET SUBMISSION

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO
FEBRUARY, 1988

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ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Association of Municipalities of Ontario, a non-partisan voluntary organization, is united to promote the values of the municipal government system and the status of the municipal level of government as a vital and essential component of the total inter-governmental framework of Ontario and Canada.

The Association acts as the collective voice of Ontario's municipal governments and is organized to accomplish through cooperation and coordination, what the majority have neither the time nor the resources to do individually.

The Association represents some six hundred (600) municipal governments throughout Ontario. The governing body is composed of some eighty (80) municipal elected and appointed officials, who in turn represent a wide-range of municipal government interest.

The following sections and affiliated municipal professional associations form an important part of the Association's structure and therefore, play an important part in its activities in terms of the Board of Directors, program and policy development:

Association Sections:

* County and Regional Section
* Large Urban Section
* Northern Ontario Section (FONOM/NOMA)
* Rural Section (ROMA)
* Organization of Small Urban Municipalities Section

Association Affiliates:

* Association of Municipal Clerks and Treasurers of Ontario
* Association of Municipal Tax Collectors of Ontario
* Municipal Engineers Association
* Ontario Municipal Administrators Association
* Ontario Municipal Personnel Association
* Ontario Municipal Social Services Association
* Society of Directors of Municipal Recreation of Ontario
* Urban Finance Officers Association of Ontario

To the Municipal Clerk:

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AMO presented this report on February 22, 1988 to the Committee of the Legislature, the Standing Committee on Finance and Economic Affairs. The report was also transmitted to the Honourable Robert Nixon, Treasurer of Ontario and to all appropriate Ministers.

PREFACE

In the 1985 Ontario Budget, the Treasurer initiated changes in the budget process with the release of a discussion paper entitled "Reforming the Budget Process". The intent of the changes was to increase the participation of the Legislature and the public in the budget process. Specific measures included the appointment of a Standing Committee on Finance & Economic Affairs to carry out pre-budget consultations, and the publishing of an Economic and Fiscal Review to focus discussion.

The Association of Municipalities of Ontario welcomed the reforms to the budget process and participated fully in the 1987 pre-budget consultations through appearing before the Standing Committee on Finance & Economic Affairs, by meeting with the Treasurer, and through a number of follow-up initiatives. The Association endorses the continuation of this initiative and is pleased to present its recommendations on the 1988 budget to the Legislature's Standing Committee on Finance & Economic Affairs.

The Association's submission represents the collective voice of Ontario's 838 municipalities. It is a compilation of the urgent issues and difficulties confronting Ontario municipalities. It is our hope that these concerns will be addressed in the 1988 Provincial budget.

INTRODUCTION

At the outset, the Association would like to express its appreciation to the Standing Committee on Finance & Economic Affairs for adopting many of the Association's 1987 recommendations. In its 1987 submission, the Association outlined a number of recommendations revolving around the ability of municipalities to finance the increasing responsibilities being devolved to the local level. The Standing Committee included the Association's concerns with respect to the funding of social services, education and infrastructure, in its final report. The Association appreciates the Standing Committee's recognition of the fiscal pressures facing municipalities.

The Association has reviewed the document "Economic Outlook and Fiscal Review: Ontario, 1987", as prepared by the Ministry of Treasury and Economics to assist the Standing Committee and all interested parties in the pre-budget process. The Association has focused on the Ontario Fiscal Review, particularly the Revenue Structure, Expenditure Structure, and Provincial-Local Transfers sections. With respect to the section on The Ontario Economy: Performance and Prospects, the Association would note that the Ontario economy is heading into its sixth consecutive year of growth, and that the medium-term outlook is for continued but moderate growth.

In the November 1987 Statement to the Legislature, the Honourable Robert Nixon announced a 6.7 percent increase in the 1988-89 transfer payments to municipalities. While this represents an increase of 1.7 percent from the 1987-88 level of 5 percent, the 1988-89 level is still below the projected 1987 increase in municipal expenditures of 8.8 percent.

The Association has become concerned about the rise in municipal expenditures and has concluded that these rising expenditures are the result of the increased number of new programs devolved to municipal government and the cost of new and improved

legislation and regulations. Some of the new programs announced within the past year will have an even more significant impact on property taxes: pay equity; extended funding to separate schools; broadening accessibility for child care; community based seniors services; higher welfare rates; the upcoming implementation of the Municipal-Industrial Strategy for Abatement (MISA); and stricter standards for waste management through Regulation 309.

In reviewing the level of transfer payments to municipalities, the Association has stated, on previous occasions, that transfer payments should be equal to increases in provincial revenues. In 1987-88 provincial revenues are expected to increase by 9.6 percent. In 1986-87 provincial revenues increased by 12.8 percent over the previous year.

The Association is in agreement with the 1987 recommendation of the Standing Committee on Finance and Economic Affairs that "the government of Ontario should evaluate the increasing financial responsibilities at the municipal level with the objective of offering relief to the growing municipal tax burden." In light of the additional responsibilities devolved to local governments and the higher rate of local expenditures the Association of Municipalities of Ontario urges the government to review the current level of transfer payments to municipalities.

RECOMMENDATION

THAT THE RATE OF INCREASE IN TRANSFER PAYMENTS TO MUNICIPALITIES SHOULD BE AT LEAST EQUAL TO THE RATE OF INCREASE IN PROVINCIAL REVENUES.

UNCONDITIONAL GRANTS

Over the past two years, AMO has worked with the Ministry of Municipal Affairs on improving the existing unconditional grants program. AMO is very pleased with the co-operative approach of the Ministry of Municipal Affairs in providing assistance for this project. AMO believes that this has been a worthwhile process and thanks the government for the timeliness of the 1988 unconditional grants announcement and for the implementation of most of AMO's recommended policy changes.

AMO also believes that much more could be achieved by the review process if it were less financially constrained as it is difficult to make improvements to the program when natural growth (i.e. growth in households and levy bases), accounts for approximately four percent of the annual increase in entitlements. In other words, this four percent does not compensate municipalities for annual inflationary increases but merely compensates for the annual growth in assessment and households. In terms of the 1988 increase of 5.7 percent, this leaves approximately 1.7 percent or 14.8 million of the 869.9 million unconditional grants allocation for improvements to the program or for "real" increases to municipalities.

It must be emphasized therefore, that fairness, equity and stability of the program can only be achieved if more funds are allocated to the unconditional grants program.

RECOMMENDATION

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO RECOMMENDS INCREASED FUNDING FOR THE UNCONDITIONAL GRANTS PROGRAM.

INFRASTRUCTURE FUNDING

ROADS

Municipal infrastructure has been the subject of much study over the past few years. The roads system, as part of the general infrastructure of public works, bridges, sewers, water distribution systems, and waste disposal and treatment facilities, is an essential part of the municipal physical environment. There have been studies brought to the attention of the government that the declining financial commitment of the past years has had a significant negative impact on the maintenance and rehabilitation of the municipal road system.

In 1984, the Road Information Program of Canada (TRIP Canada) produced a research study which forecasted that in Ontario, 61 percent (or 37,679 km) of municipal paved roads would need resurfacing over the next five years at an estimated cost of $3.4 billion. To meet this need, spending would have to increase by two and a half times.

In 1985, AMO supported the Ontario Good Roads Association in their request for an increase of $75 million in road subsidy dollars each year for the next five years to meet 50 percent of the roads maintenance needs of municipalities.

Recent statistics illustrate the deficit situation of many municipalities.

Over and Under MTC Subsidy Level[1]
1985-1986

Ranges*	Number of Municipalities		Expenditure Level	
	1985	1986	1985	1986
At or below accepted level of support	239	248	(7,892,500)	(9,355,500)
1-5% Overspent on Expenditure	194	197	4,714,900	5,425,500
6-10% Overspent	98	110	6,655,500	15,187,000
11% and Up	353	330	121,246,200	105,863,000
Total/Over Expenditure	884	885*	132,741,200	126,581,200
% Munic. Overspent	73%	72%		

* Range 1 are those municipalities which are at or under the expenditure level. Range 2 are municipalities 1-5% over the expenditure level. Range 3 are those municipalities which are 6-10% over the subsidy level, and Range 4 are those 11% or greater over the roads subsidy level. In 1986, 330 municipalities or 37% added more than 10% municipal dollars to roads funding for a total of $121 million municipal dollars. Of these municipalities twenty-five had over-expenditures of at least one million dollars for a total of $72 million. That is, twenty-five municipalities financed $72 million dollars of roads maintenance from municipal revenues (property taxes and the unconditional grants program). The Ministry has advised that these twenty-five municipalities "overspend" regularly.

The Association acknowledges that there has been a recognition on the part of the Provincial Government of the need for more provincial funding for municipal roads. In 1986-1987 the Ministry of Transportation's municipal roads budget was increased by 4% for maintenance and 3% for new construction. In addition, under the Ontario Municipal Improvement Fund an extra $30 million was allocated to the roads subsidy program and the Highway Connecting Link Program. In the 1987-1988 Provincial Budget the govern-

*includes municipalities and roads boards

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1 Communication from Ministry of Transportation, Municipal Transportation Policy Branch, January 1988.

ment increased the roads grants by a total of 9.5%. As well, the government provided $28 million in the Northern Development Fund, some of which was allocated to roads programs for northern Ontario communities.

The Association appreciates the recognition given for the past two years to the need for maintaining the municipal roads system. Unfortunately, funding has not been commensurate with actual need as demonstrated by the various studies on the subject and by municipalities through the formal needs assessment process. Although the provincial government did attempt to meet the need for increased road maintenance dollars by initiating the Municipal Improvement Fund, the 30 million dollars did not go very far once allocated to the local level. As demonstrated by the table above, municipalities have been forced to draw funds off from other priority areas to support roads maintenance.

Funding by Program in 1986

		(000's)
Administration	$	5,798
Roads (includes suburban roads program)		549,950
Highway Connecting Link Program		18,808
Development roads		4,000
		589,926
Ontario Transportation Improvement Fund		22,450
- Northern Development and Mines		5,000
	$	645,000

It is interesting to note that there has not been any money allocated to the following roads programs for the past three years: the program for unincorporated areas; the Sidewalks on King's Highways and County roads program.

There was not an allocation to the Municipal Transportation Planning Program in 1987.

RECOMMENDATION

THE ASSOCIATION RECOMMENDS THAT THE PROVINCIAL GOVERNMENT REVIEW THE CURRENT MUNICIPAL DEFICIENCIES AND OVER-EXPENDITURES WITH A VIEW TO SIGNIFICANTLY INCREASING THE MINISTRY OF TRANSPORTATION BUDGET FOR MUNICIPAL ROADS.

SEWER & WATER

While the Association is supportive of the government's initiatives to improve the quality of the environment, the Association is very concerned about the financial impacts of the new programs and regulations on municipalities. Specifically, the Association is concerned with the future financial impact of the Municipal-Industrial Strategy for Abatement (MISA) Program which is scheduled for implementation by the end of 1989.

Currently, the municipal sector has 407 sewage treatment plants. According to the 1987 Ministry of the Environment publication "Report on the 1986 Discharges from Municipal Waste Water Treatment Facilities in Ontario", 169 of the municipal treatment plants (42%) are municipally operated while the remaining 238 plants (58%) are operated by the Ministry of the Environment. In 1986, 151 treatment plants (37%) did not meet effluent requirements for the fifteen conventional pollutants. Of these 151 plants, 90 or 60% were operated by the Ministry of the Environment. In 1985, 99 treatment facilities or 25% (58 MOE operated) did not meet effluent requirements. According to the 1986 report "some facilities fail because of operational inadequacies, some require modifications to process equipment or the collection system, and others require major capital expansion". Under the proposed MISA program municipalities will be responsible for an additional one hundred and sixty-nine pollutants.

The Association is very concerned about the future costs of implementing the MISA program, especially when current facilities are greatly in need of capital improvements in order to comply with current standards. While AMO is supportive of the goal of the MISA program, discussions with municipalities on financing arrangements need to take place well before the regulations are promulgated. AMO is in agreement with the Honourable James Bradley's statements that rehabilitation of Ontario's sewage treatment systems requires federal funding and that the municipal call for financial support from both the provincial and federal government, with respect to MISA, is essential.

With regard to sewer and water pipes, the Association appreciates the government's initiative to help municipalities rebuild Ontario's infrastructure through their grant program LIFELINES. As the program is outlined, costs for rehabilitation will be shared on a one third/two thirds basis by the provincial government and municipalities respectively. According to an Ontario Sewer and Watermain Contractors Association (OSWCA) study, "to return provincial sewer and watermain distribution systems in Ontario to good working order and keep them that way, will cost about $250 million per year for the next 50 to 60 years". While the province intends to assist municipalities with the cost of rehabilitation, it is questionable whether enough provincial or municipal funds are available to accomplish this task.

Despite its policy commitment to improving the quality of the environment, the provincial government (1987-88) only devoted 3.5 percent ($136 million) of its $3.9 billion transfer payment budget to the environment (water, sewer and waste management).

RECOMMENDATION

THE ASSOCIATION RECOMMENDS THAT THE PROVINCIAL AND FEDERAL GOVERNMENT FINANCIALLY ASSIST MUNICIPALITIES IN THE IMPLEMENTATION OF MISA AS THE ENVIRONMENTAL BENEFITS RESULTING FROM THIS PROGRAM WILL EXTEND THROUGHOUT THE COMMUNITY, THE PROVINCE AND THE NATION.

THE ASSOCIATION FURTHER RECOMMENDS THAT THE PROVINCE OF ONTARIO PURSUE A TRI-LEVEL FINANCIAL AGREEMENT FOR THE OVERALL FUNDING OF INFRASTRUCTURE.

AFFORDABLE HOUSING

In its 1987 submission to the Standing Committee on Finance & Economic Affairs, the Association urged the government of Ontario to make a significant budgetary commitment to the production of non-profit housing during 1987. The budget included a further $220 million in capital support for the construction of more affordable rental housing, and an additional $50 million annually to support for operating costs. The budget also included a commitment to use Provincially-owned lands for the production of affordable rental accommodation.

The Association of Municipalities of Ontario recognizes and appreciates the Province's commitment to providing an adequate supply of affordable housing. In addition to the 6,700 new non-profit housing units being supplied annually under the federal/provincial non-profit housing program and the 3,000 units receiving unilateral provincial funding under Project 3,000, last year the Provincial government allocated 3,600 units of new non-profit housing and 1,000 units under the Supportive Community Living demonstration project (also unilaterally funded). More recently, the provincial government announced a $31.5 million program focusing on short-term emergency shelter as well as long term permanent housing. The Convert-to-Rent Program also addresses housing supply, while on the ownership side the Province intends to devote some its own lands to affordable housing and is encouraging municipalities to address affordable housing through land-use planning. In addition to the supply programs, the government funds a number of renovation and other programs such as the Ontario Home Renewal Program, the Low-Rise Rehabilitation Program, Home Sharing, etc.

Notwithstanding the province's efforts, there remains a housing crisis in Ontario. Despite the Province's supply initiatives, the waiting lists for social housing remain unacceptably long (there are 27,000 households on the Ontario Housing Corporation waiting list), and will be growing as a result of the Minister's announcement of January 23, 1988 that eligibility for social housing will be expanded to include low-income singles, childless couples and empty-nesters, and that the one-year Ontario residency requirement will no longer apply. The policy change "improves the opportunities" of about 90,000 needy households.

Despite the reforms to rent review, vacancy rates in our urban centres are extremely low (see table below) and the units that are available are all at the upper end of the scale.

VACANCY RATES IN ONTARIO
(as of October, 1987)

MUNICIPALITY	VACANCY RATE
Hamilton	0.3
Kitchener	0.6
London	1.0
Oshawa	0.6
Ottawa	1.7
St. Catharines	0.5
Sudbury	1.0
Thunder Bay	2.2
Toronto	0.1
Windsor	0.7

In addition, affordability, or "unaffordability", has emerged as a new and potentially more serious problem. According to the Economic Outlook and Fiscal Review, average resale housing prices in Ontario increased by 25% in 1986 and by an additional 24% over the first three quarters of 1987. During the current housing boom, carrying costs as a percentage of gross family income have risen substantially from 20.6% in 1985 to an estimated 25.9% in 1987. In terms of down payments, the minimum outlay for purchasing a home in Ontario has risen from 51.6% of average family income in 1985 to an estimated 69.7 percent in 1987. The near total absence of moderately priced housing is forcing many tenants to remain in apartments, which is further exacerbating the vacancy problem. Fewer people can afford to buy homes today than in 1970 (Social Planning Council of Metro Toronto).

The size and cost of the provincial government's housing programs seems staggering when looked at in isolation. The Ministry of Housing allocation for 1987-88 was $378 million. However, this represents only 1.08% of the $35 billion total provincial budget for 1987-88. It is obvious that the housing allocation has been insufficient in terms of addressing the problem. In view of the fact that the problem is worsening, and in view of the fact that recent changes to eligibility for social housing will further lengthen waiting lists, the Association would recommend that the non-profit housing allocation be further increased in the 1988 provincial budget.

RECOMMENDATION

THAT THE NON-PROFIT HOUSING ALLOCATION BE FURTHER INCREASED IN THE 1988 PROVINCIAL BUDGET.

SOCIAL SERVICES

In its 1987 submission to the Standing Committee on Finance & Economic Affairs the Association made two recommendations regarding social services. The Association recommended that the provincial government significantly increase funding for social programs to reflect increased costs resulting from regulatory change and program enhancements, and that the government improve the cost-sharing arrangements for General Welfare Assistance by expanding the administration component.

Since the time of our last submission, a number of developments have reinforced the need to address the whole issue of how social services are funded:

- In June 1987, the Provincial Government introduced New Directions for Child Care. The central reference point of New Directions is that child care should be a public service, not a welfare service, and that all families must have reasonable access to a range of affordable, appropriate services. The Association is currently attempting to define the municipal role with respect to child care however it is clear that the property tax base cannot support a public service model of child care service delivery.

- On November 1, 1987, the "Spouse in the House" rule under the General Welfare Assistance Act was replaced. Under the "Spouse in the House" rule, single parents could neither receive social assistance nor legally pursue support from a person of the opposite sex who shared a common residence. Under the new rules, a single parent will either be eligible for social assistance or have an adult with a legal obligation to support him or her. By the province's own estimates there will be an estimated 10-12% increase in sole support parent caseload on an ongoing basis. It is estimated that the new legislation will result in an increase of 8,000 persons to the FBA/GWA caseload over the next three years. The total cost of the shift for 1988 will be around $45 million with additional costs to municipalities approaching $10 million.

- On November 10, 1987, the Honourable John Sweeney announced an $82.6 million increase in Social Assistance. The basic allowance was increased by 5% and the maximum shelter subsidy benefit was increased by 8%. At that time the Minister stated "Five major improvements in social assistance levels have been implemented since 1985. Including the $82.6 million I am announcing today, those five improvements represent a 22.5% increase over three years in social assistance benefit levels, **well ahead of increases in the cost of living.**"

- Throughout 1987, discussions continued on A New Agenda: Health and Social Service Strategies for Ontario's Seniors, the Provincial White Paper on services for seniors. The white paper focuses on improvements in access and delivery of community services and expansion and improvement of community services. Here again, it is

clear that the property tax base cannot support the levels of service being called for, for the growing seniors population.

Each year, the cost of providing social services rises either through increases in the cost of providing the service or through expanding the service base or adding new services, and 1987 was no different. Increases in provincial expenditures for social services have not, however, been commensurate with the expansion of the social services system. In 1987-88, 65% of Ontario's expenditures will be devoted to social services (health, education and social services). This represents only a 2% increase from 1977-78. Meanwhile, municipal social services budgets have been experiencing dramatic increases. For example, proposed 1988 budget increases for Metro and surrounding regions range from 16.2% in Peel to 39.3% in Durham. The limited property tax base cannot and should not be relied upon to finance an increasingly greater proportion of an ever expanding social services system, particularly when it is already supporting the provincial education system beyond the intended levels.

In this context, the current Provincial Municipal Social Services Review, which will be reporting on the delivery and funding of all social services in Ontario, represents an excellent opportunity to address this chronic problem and set the groundwork for a more rational cost sharing and delivery system in the future. Any future framework should be developed with regard to the access to revenue sources of municipalities and of the province. The principal municipal sources of revenue are the regressive property tax and provincial transfers. The Province has access to a far broader range of revenue sources including the progressive income, corporate and sales taxes, and transfers from the federal government. As such, the Provincial government is far better placed to assume a greater proportion of the cost of funding social services. We would encourage the provincial government to work towards "evaluating the increased financial responsibilities at the municipal government level with the objective of offering relief to the growing municipal tax burden", as recommended by the Standing Committee on Finance and Economic Affairs.

RECOMMENDATION

THAT THE PROVINCIAL GOVERNMENT ASSUME A GREATER PROPORTION OF THE COST OF FUNDING SOCIAL SERVICES.

THE ASSOCIATION HAS TAKEN A POSITION THAT INCOME MAINTENANCE SHOULD BE FUNDED 100% BY THE PROVINCE, AND THAT THE PROVINCIAL GOVERNMENT SHOULD ASSUME 100% OF THE COST OF CHILD CARE CAPITAL AND DIRECT GRANTS AND A GREATER PROPORTION OF THE COST OF CHILD CARE SUBSIDIES.

EDUCATION FUNDING

The Association of Municipalities of Ontario has a particular interest in the future impact of school funding on the local tax base. According to the Economic Outlook and

Fiscal Review - 1987, school taxes have contributed more to the recent rise in local taxation, growing 8.3 percent per household on an annual basis since 1982, compared to 6.9 percent annual growth in municipal taxes.

The Association's conferences for many years have endorsed resolutions requesting the provincial government to fully fund education. AMO, in its comments to the MacDonald Commission, "The Report of the Commission on the Financing of Elementary and Secondary Education in Ontario", urged the government to determine a mechanism for removing all education costs from the property tax base.

The Association is concerned with the increasing costs of education especially in light of new educational programs announced by the provincial government. In the 1987 provincial speech from the throne, the government announced its renewed commitment to elementary education by stating that it would provide school boards with resources to: reduce class sizes in grades one and two; increase the use of computers and educational software; purchase new textbooks and other learning materials; and help teachers update their knowledge of computer skills. In recent years the government has made legislative amendments to extend funding to separate school boards as well as introduced programs for native and french language instruction. Where new programs and services are added, AMO is concerned with the impact that these enriched programs have on the property tax base.

The Association concurs with the 1987 comments of the Standing Committee on Finance and Economic Affairs that increased funding to elementary and secondary schools should be the direct responsibility of the Province and that there should be less dependence upon municipal property tax for education than is the case today and that the government should increase its share of funding to elementary and secondary education to 60 percent of total expenditures. The Association also concurs therefore, with the commitment to 60% provincial funding of education made by the Premier during the 1985 election campaign.

The Association understands that the Ministry of Education is in the process of revising its apportionment factors and AMO is anxiously awaiting their implementation.

RECOMMENDATION

THE ASSOCIATION RECOMMENDS THAT FOR THE 1989 TRANSFER OF GENERAL LEGISLATIVE GRANTS TO SCHOOL BOARDS, THE PROVINCIAL GOVERNMENT PROVIDE A MINIMUM OF 60 PERCENT FUNDING OF TOTAL SCHOOL BOARD EXPENDITURES;

AND FURTHER THAT THE MINISTRY OF EDUCATION REVISE ITS SYSTEM OF APPORTIONMENT SO THAT THE SCHOOL TAX BURDEN WILL BE SHARED ON A MORE CURRENT AND EQUITABLE BASIS; AND THAT ALL MUNICIPALITIES UNDERGO COUNTY/REGION/DISTRICT WIDE REASSESSMENT TO CREATE PROPER EQUALIZATION FACTORS;

AND THAT ANY FORM OF POOLING OF COMMERCIAL AND INDUSTRIAL ASSESSMENT FOR EDUCATION PURPOSES BE REJECTED;

AND THAT AN INTRODUCTION OF A PROPERTY TAX CREDIT PROGRAM FOR RESIDENTIAL AND FARM RATEPAYERS BE REJECTED;

AND THAT ULTIMATELY, THE PROVINCE ASSUME 100 PERCENT OF THE COSTS OF EDUCATION AS THE EDUCATION SYSTEM IS FOR THE BETTERMENT OF ALL SOCIETY AND ACCOUNTS FOR OVER ONE-HALF OF THE PROPERTY TAX BILL AND HAS NO DIRECT RELATIONSHIP TO THE WORTH OF PROPERTY.

FEDERAL TAX REFORM
Phase 2 - Sales Tax Reform

The Association and its membership has been awaiting, with some apprehensiveness, the release of Phase 2 of the Federal Finance Minister's tax reform proposals. Mr. Wilson's preliminary document, released early last summer, leaves much to be desired in terms of definition or direction. As a consequence, it has been extremely difficult, if not impossible, to achieve a reasonable or accurate picture of the possible impact upon municipal government and public sector institutions in Ontario.

A number of municipal governments across Ontario and Canada, in cooperation with a special task force of the Federation of Canadian Municipalities, have attempted to measure consequences using the preliminary documentation. While the figures produced are for the most part suppositions, nevertheless the study completed by Clarkson Gordon Chartered Accountants projected substantial financial impact upon municipal governments.

Clarkson Gordon reported that based on 1986 Statistics Canada data, municipalities purchase about $7 billion annually in goods and services and contribute $350 million in federal sales taxes. They concluded that under a multi-stage tax (assumed to be 8 percent), municipalities could expect to contribute $532 million in federal sales tax, an increase of 52 percent. The foregoing does not include increases that would accrue to other public sector organizations such as school boards, hospitals, colleges, universities and other public sector institutions.

The Association of Municipalities of Ontario has expressed its appreciation to the Honourable Robert F. Nixon, Treasurer of Ontario, on his statement of November 18th, 1987, to the Legislature of Ontario, to the effect that he had requested the federal minister to "...provide either a plan for a tax-free approach or an appropriate compensation mechanism for provincial and other public sector transactions, should this new tax (system) be implemented."

The Treasurer of Ontario's message was conveyed to Mr. Wilson at a subsequent meeting of provincial treasurers. As a result, Mr. Wilson announced at the conclusion of the meeting on December 11th, that basic groceries, drugs and medical devices would not be included within a national sales tax program and that public-sector institutions "...should not bear a greater tax burden under a National Sales Tax than they would under the existing sales tax regimes."

While the Association of Municipalities of Ontario takes some comfort in Mr. Wilson's statement, the words "should not" are ambiguous enough for the Association to remain concerned over the potential impact on municipal government in Ontario. For example, the statement lumps municipalities in with other public sector institutions. While the entire public sector might not bear a greater tax burden, the possibility of shifts within this broad sector is not precluded.

While groceries are to be exempt, will food prepared and served in public sector institutions such as homes for the aged, public day care facilities or hospitals be subject to a national sales tax? The "self-supply" proposals of the White Paper and the possible implication upon municipal financial management constitute another area of significant anxiety for municipalities.

For the above reasons the Association of Municipalities of Ontario and its municipal members will continue to monitor developments in this regard. AMO is most appreciative of the invitation of assistance offered by the Honourable Robert Nixon, in this regard to call upon Mr. Larry Leonard, Assistant Deputy Minister, Tax Reform. We have had one meeting with Mr. Leonard and the members of his staff and will continue to keep in close touch with him in the coming months.

RECOMMENDATION

THE ASSOCIATION RECOMMENDS THAT THE PROVINCIAL GOVERNMENT, IN ITS NEGOTIATIONS WITH THE FEDERAL GOVERNMENT, PURSUE THE POSITION THAT MUNICIPALITIES SHOULD NOT BEAR A GREATER TAX BURDEN UNDER A NATIONAL SALES TAX THAN THEY WOULD UNDER THE EXISTING SALES TAX REGIME.

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